

Electronically Recorded

Official Public Records

Tarrant County Texas

2008 Nov 04 02:25 PM

Fee: \$ 40.00

Submitter: SIMPLIFILE

D208415513

7 Pages



Suzanne Henderson

Producers 88 (4-89) — Paid Up
With 640 Acres Pooling Provision

L0207953

PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made this 15th day of August, 2008, by and between South Mayfield Limited Partnership, a Texas Limited Partnership, 777 E. 15th Street #202, Plano, Texas 75074, collectively referred to as Lessor, and Hott Resources, LLC, a Texas Limited Liability Company, 4005 Mockingbird Lane, Colleyville, Texas 76034, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

SEE ATTACHED EXHIBIT "A" FOR LEGAL DESCRIPTION AND ADDITIONAL PROVISIONS

in the county of TARRANT, State of TEXAS, containing 8.088 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith (including geophysical/seismic operations). The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term **three (3) years** from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be **25%** of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be **25%** of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes.

4. All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit in at lessor's address above or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the US Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

5. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith.

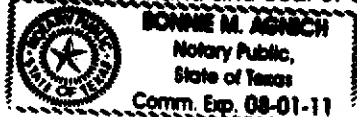
6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil or gas well which is not a horizontal completion shall not exceed 40 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for a gas well which is a horizontal completion up to the amount necessary to secure the maximum available allowable allocation under Texas Railroad Commission Rule 86 and to make the well(s) legal location(s) under Texas Railroad Commission Rule 37.. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record and provide the Lessor with a copy of a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking

D208415513

STATE OF TEXAS §
COUNTY OF *Collin* §
 §

Before me, Bonnie M. Agnich, the undersigned notary public, on this day personally appeared Ronald W. Walden, who is known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he/she executed that instrument for the purposes and consideration therein expressed, and in that capacity therein stated.

Given under my hand and seal of office this 15 day of August, 2008.



My Commission Expires: 08-01-11
Commission Number: _____

Bonnie M. Agnich
Notary Public, State of Texas

EXHIBIT "A"

Attached hereto and made a part of that certain oil, gas and mineral lease as dated 15 August 2008, by and between **South Mayfield Limited Partnership**, collectively referred to as Lessor, and **Hott Resources, LLC**, as Lessee.

ADDENDUM (ADDITIONAL PROVISIONS):

The provisions of this Addendum are in addition to the provisions contained in the lease and are intended to be covenants running with the lease and the land covered thereby, and shall be binding upon and inure to the benefit of the successors and assigns of the parties. This Addendum is incorporated into the lease to which it is attached and is a part of such lease for all purposes. In the event of conflict between the provisions of this Addendum and the provisions of the lease to which this Addendum is attached, the terms of this Addendum shall control and be controlling.

1. **Oil and Gas Only.** This lease shall be limited to oil, gas and other associated hydrocarbons and sulphur produced through the well bore with oil and gas. All references in this lease to "other minerals" are hereby deleted.

2. **Shut-in Royalties.** If, during the primary term or thereafter, there is located on the leased premises (or land pooled therewith according to the pooling authority contained in this lease) a well completed and capable of producing gas in commercial quantities, but the production thereof is shut-in, shut-down or suspended for lack of a market, available pipeline, or because of government restrictions or, if it is economically inadvisable for both the Lessor and Lessee to sell gas for a time as evidenced by a written agreement signed by both parties, then, and in any such event, Lessee may pay as royalty a sum of money equal to **\$100.00** per acre for the referenced acreage. The first payment will be due not later than ninety (90) days after the date the well is shut in, and subsequent payments will be due annually thereafter (if this lease is not being otherwise maintained in force) on the anniversary date of the period for which the prior payment was made. Upon proper and timely payment of royalty under this paragraph, it will be considered that gas is being produced. Shut-in royalty may be paid direct to Lessor at the addresses set out in this lease. In no event may this lease be perpetuated as to any of the lease premises by the payment of shut-in royalties for a period exceeding three (3) years in the aggregate or two (2) years consecutively..

3. **No Surface Use.** The surface of the leased premises shall not be used by Lessee for any reason, even though Lessee may claim rights of use through other parties. Lessee expressly releases and waives all rights of ingress and egress and all other rights of every kind and character whatsoever to enter upon or to use the surface of the leased premises or any part thereof, including, without limitation, the right to enter upon the surface of the leased premises for purposes of exploring for, developing, drilling, producing, transporting, mining, treating, storing or any other purpose incident to the development of production of the oil, gas and other minerals, in, on, and under the leased premises. This release and waiver is a material consideration to Lessor's agreements hereunder, and, but for such release and waiver, Lessor would not lease the leased premises to Lessee. Lessee may develop the minerals underlying the leased premises by pooling or unitizing the leased premises with other lands adjacent to the leased premises and conducting drilling and other surface operations from drillsite locations

located off the leased premises or by drilling subsurface directional and/or horizontal wells underlying the leased premises from drillsite locations located off the leased premises.

4. **Noise.** If Lessee obtains a drill site location within 600 feet of the leased premises, Lessee's operations related to the drilling, completion and reworking of wells shall be kept to a reasonable minimum, taking into consideration reasonably available equipment and technology in the oil and gas industry, the level and nature of development and surface use elsewhere in the vicinity of Lessee's drill sites and the fact Lessee's operations are being conducted in or near an urban residential area. If Lessee utilizes any non-electric-powered equipment in its operations, Lessee shall take reasonable steps to muffle the sound therefrom by installing a noise suppression muffler or like equipment

5. **Depth Limitation.** This lease includes only minerals located from the surface to the base of the Barnett Shale formation.

6. **Pooling.** Once Lessee has formed a unit under the provisions of Section 6 of the lease, said unit shall not be reformed or amended without the prior written consent of Lessor.

7. **Royalty Payments.** Initial royalty payments shall be due within one hundred twenty (120) days after the end of the month in which first sales were made. All subsequent royalty payments shall be due within sixty (60) days after the end of the month in which the production occurred. Should Lessee fail to pay such royalty within such time, then Lessee shall pay to Lessor interest on said accrued royalties at the maximum rate permitted by law, from the due date until the date of payment. The rights of Lessor under this paragraph shall be in addition to, and not in lieu of, all rights Lessor may have as to payment of royalty under V.T.C.A. Natural Resources Code §§ 91.401 through 91.405.

The receipt by Lessee, or Lessee's operator, from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee, or Lessee's operator, acquiring legal or equitable title to those proceeds, but Lessee, or Lessee's operator, will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the leased premises or pipeline company transporting production from the leased premises, Lessee will remain liable for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid. Lessor retains the right to terminate the Lease for failure to pay royalties, after a period of written notice and opportunity to cure which shall not exceed sixty (60) days.

8. **No Warranty of Title.** This Lease is given and granted without warranty of title, express or implied, in law or in equity. Lessor agrees that Lessee, at Lessee's option, may purchase or discharge, in whole or in part, any tax, mortgage or other lien upon the leased premises and thereupon be subrogated to the right of the holder thereof, and may apply royalties accruing hereunder toward satisfying same or reimbursing Lessee. It is also agreed that if Lessor owns an interest in the oil and gas under the leased premises less than the entire fee simple estate therein, the royalties and shut-in royalties to be paid Lessor shall be reduced proportionately.

9. **Indemnity.** LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY LESSEE'S OPERATIONS ON THE LAND OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

10. **Compliance with Laws.** Lessee covenants that it will strictly comply with all applicable laws, regulations and ordinances in conducting all operations under this lease.

11. **Force Majeure.** The events of force majeure (described in the printed lease), shall exclude any occurrence or cause reasonably within the control of Lessee. Moreover, Lessee shall take all reasonable actions to remove or end any cause of force majeure as soon as reasonably possible. The lease shall not be held in force and effect by its force majeure provision for a period of greater than two (2) years in the aggregate.

12. **No Waiver.** No waiver of any of the provisions of this lease shall be deemed or constitute a waiver of any other provision of this lease. Likewise, the failure of Lessor to enforce any provision of this lease shall not be deemed nor shall constitute a waiver of the right of Lessor to enforce such provision.

13. **Attorneys' Fees.** If Lessor or Lessee files a legal action to enforce any express or implied obligation of this lease and receives a final unappealable judgment from a court of competent jurisdiction, then the prevailing party shall be reimbursed for all costs of such legal proceedings, including reasonable attorneys' fees and costs.

14. **No Deductions/Affiliate Sales.** It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the Lessor under this lease or by state law shall be without deduction for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder; provided however, any such costs incurred on an unaffiliated interstate or intrastate gas pipeline which result in enhancing the value of the marketable oil, gas or other products to receive a better price may be deducted from Lessor's share of production so long as they are based on Lessee's actual cost of such enhancements. In no event shall Lessor receive a price that is less than, or more than, the price received by Lessee. It is the intent of the parties that the provisions of this paragraph are to be fully enforceable and effective and are not to be construed as "surplusage" under the principles set forth in *Heritage Resources v. NationsBank*, 939 S.W.2d 118 (Tex. 1997).

15. **Division Orders.** Should Lessor agree to execute a Division Order, it is agreed that no Division Order (or any Transfer Order) shall increase or diminish the agreements and provisions contained herein. In sum, if any such Division Order or Transfer Order contains wording contrary to the provisions herein and Lessor executes same without amending such language, the agreements and provisions herein shall supercede those of the Division Order or Transfer Order.

16. **Insurance.** At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the leased premises, including any work performed on its behalf by contractors, subcontractors and others. The policies shall include coverage for comprehensive general liability for bodily injury and property damage with a limit of \$ 3,000,000, blowout and loss of well coverage, and coverage for any damage to the environment resulting from a blowout, including coverage for the cost of clean up and surface remediation, with a limit of \$ 3,000,000. In addition, Lessee shall maintain an Umbrella Liability policy in the amount of \$ 25,000,000. Lessee may self insure for up to \$ 5,000,000 with respect to the insurance coverage required of Lessee, provided that the tangible net worth of Lessee is, at all times while self-insurance is in effect, in excess of \$ 1,000,000,000.

Record & Return to:
Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, OK 73154

17. ***Calculation of Bonus.*** Lessee shall agree to include in the calculation of the bonus payment any easements, accretions, small strips, or parcels of land that are contiguous or adjacent to the leased premises which are determined to be owned by the Lessor and Lessor's interest in minerals, under it, across streets and rights-of-way.

18. ***Inspection of Lessee's Records.*** Upon written request, Lessor and/or Lessor's representative shall have the right to inspect all lease and title records and well records of Lessee relating to the production data attributable to this Lease, including the right to audit Lessee's books insofar as they relate to the calculation of Lessor's royalties. Such inspection shall be limited to an annual basis only, during Lessee's normal business hours and be exercised by Lessor by giving Lessee not less than thirty (30) business days prior notice; provided, however, such audit rights shall not extend to any periods which are twenty-four months (24) prior to the date of such audit notice. Lessee shall provide production document needed for such audit free of charge to Lessor and Lessor shall bear all costs and expenses of any such audit beyond those document costs.

19. ***Release.*** In the event this Lease terminates for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, deliver to Lessor a recordable release covering all of the Land or that portion of the Land as to which this Lease terminated.

LAND DESCRIPTION:

8.088 acres of land, more or less, being all of Lot 10R-2 of the J. L. Newton Addition, an addition to the City of Arlington, Tarrant Co, TX, according to the plat recorded in Cabinet A, Slide 6223 of the Deed Records of Tarrant Co, TX.

Record & Return to:
Chesapeake Operating, Inc.
P.O. Box 18496
Oklahoma City, OK 73154